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February 6, 1998

Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW Room 222
Washington, DC 20554

Dear Ms. Salas:

Enclosed are the original and four copies of the reply comments of GVNW Inc./Management in response to the Commission's Public Notice in CC Docket No. 96-45 Report to Congress (Reference FCC DA 98-2 released January 5, 1998.)

Also enclosed is one copy of our reply comments to be stamped and returned in the enclosed self addressed stamped envelope.

Any questions regarding this filing may be directed to me at (503) 624-7075.

Sincerely,

Jeffry H Smith

for Kenneth T. Burchett
Vice President

cc: Sheryl Todd (Paper Copy and Diskette)
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Universal Service Branch
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Before the
Federal Communications Commission
Washington, DC 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	(Report to Congress)

REPLY COMMENTS
of
GVNW INC./MANAGEMENT

GVNW Inc./Management (GVNW) respectfully submits its reply comments in the above-referenced proceeding. The Commission was directed by 1998 appropriations legislation (H.R. 2267) to undertake a review of the implementation of the provisions of the Telecommunications Act of 1996 relating to universal service. The report is intended to provide a detailed description of the extent to which the Commission's interpretations in certain areas are consistent with the plain language of the Act. GVNW provides the following reply comments on the five questions for inclusion in the report to be submitted to Congress by April 10, 1998.

Question # 1. The Definitions of "information service," "local exchange carrier," "telecommunications," "telecommunications service," "telecommunications carrier," and "telephone exchange service" contained in Section 3 of the Act, and the impact of the interpretation of those definitions on the provision of universal service to consumers in all areas of the Nation.

The initial definitions promulgated by the Commission in its rules appear generally to be satisfactory. It is important to note for the record, however, that definitions in and of themselves do NOT solve the problem of how universal service will be funded. It is through support mechanisms that spread the burden across the general body of ratepayers in a non-discriminatory manner that universal service will best be maintained in the high-cost, rural segments of the country.

We should not assume that there will be someone available to serve the telecommunications needs of all citizens, even those who live a great distance from the voting booth and serving wire center. As discussed in more detail in the response to question 5, this assumption may not be valid without adequate universal service mechanisms.

It is interesting to observe that some of the critics of universal service support programs have experienced first-hand the capital intensive nature of providing local dial tone services. In a Wall Street Journal article last July [1], MCI's Mr. Davis stated well the problem with being an eligible telecommunications carrier: " *If we're getting a customer who spends $20 a month on phone service, we may never make enough to pay for these charges and make a profit.*". In addition, as widely reported in the press [2], AT&T has slowed its plans for its invasion of the local dial tone market. Perhaps the most succinct and revealing statement concerning this topic is

1 Wall Street Journal article, July, 1997, "MCI Widens Local-Market Loss Estimate", quoting senior vice president of finance and local marketing, Nathaniel A. Davis

2 Various sources, including USA Today article of November 14, 1997, "AT&T hanging it up in the local market"

found in the comments last August of Yale Management School's Professor Paul MacAvoy. Professor MacAvoy, speaking at an AEI seminar in Washington DC on August 14, offered the following observation: "*That nobody's beating down the doors to get into the local exchange business generally because most parts of that business don't generate the sort of high profits new entrants seek.*"

One open item with respect to Commission definitions relates to how much local usage will be required to be provided by universal service providers. The Commission included in its definition of core universal services a provision for local usage (reference section 54.101(a)(2)). This aspect of the core definition of universal service has not yet been resolved and is a key component of the provision of universal service in rural areas. Traditional pricing mechanisms utilize flat rate pricing for local service. Although rural exchanges may have low local rates when compared to those in metropolitan areas, the rural subscriber typically must make a substantially higher number of toll calls simply to access schools, medical facilities and government agencies. The Commission indicated that the amount of local usage to be required would be quantified by the end of 1997, but as of the date of these comments, the Commission has not released this quantification.

Question # 2. The application of those definitions to mixed or hybrid services and the impact of such application on universal service, and the consistency of the Commission's application of those definitions, including with respect to Internet access for educational providers, libraries, and rural health care providers under section 254(h) of the Act.

With the Schools and Libraries Corporation just activating their Website to begin accepting applications for funding on January 30, it is too early to determine the impact in this area. We do note, however, that many small rural LECs have provided discounted services to schools prior to the school universal service program.

Question # 3: Who is required to contribute to universal service under section 254(d) of the Act and related existing Federal universal service support mechanisms, and of any exemption of providers or exclusion of any service that includes telecommunications from such requirement or support mechanisms.

Congress gave the Commission the authority to include any other provider of telecommunications service, even if it does not meet the definition contained in Section 3, if it would be in the public interest to do so. The only exception to this mandate was for providers whose contributions would be *de minimis,* as modified in the Commission's Fourth Order on Reconsideration released December 30, 1997. Congress intended universal service to be a national public policy. We agree with other commenters that since all providers benefit from the preservation and advancement of ubiquitous public networks, all providers should contribute to universal service.

Question # 4. Who is eligible under Sections 254(e), 254(h)(1) and 254(h)(2) of the Act to receive specific Federal universal service support for the provision of universal service, and the consistency with which the Commission has interpreted each of those provisions of section 254.

Congress established the proper public policy foundation at Section 254 (b)(5): There should be specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service.

With respect to section 254(e) eligibility, it is our understanding that as of the initial December 31, 1997 eligible carrier designation date, there were not multiple carriers designated in any rural service areas. With respect to section 254 (h)(1) and (h)(2) eligibility, as discussed in question # 2 above, it is still too early to gauge the success of these efforts.

In related rules implemented to date, we offer both a compliment and a criticism to the Commission. The Commission has exercised great wisdom and prudence in delaying the implementation of a system that uses forward-looking economic costs for universal service support for non price-cap LECs until at least the year 2001. A great deal of work remains to be done in this area before the application of such methodologies should even be contemplated for rural carriers.

With respect to the treatment of universal service support for acquired exchanges, we believe the Commission has missed the mark by not removing the previously established caps on USF cost recovery. With the promulgation of the universal rules in section 54, 54.305 provides that an acquiring carrier "will receive support for the newly acquired lines based upon the average cost of all of its lines." Without the removal of the caps for the 76 LECs so impacted, it MAY not be possible for these LECs to receive the universal support that is mandated in Section 254 (b)(5): There should be specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service applied to all eligible carriers in a consistent manner. The continued application of caps to a select group of eligible carriers while requiring the same level of service quality as is required of all other eligible carriers is unfair and is at odds with the concept of competitive neutrality.

Question # 5. The Commission's decisions regarding the percentage of Universal Service Support provided by the Federal Mechanisms and the Revenue Base from which such support is derived.

Historically, universal service support has been provided through the jurisdictional separations process (e.g., the supported costs have been assigned to the interstate jurisdiction). This assignment of cost to the interstate jurisdiction and away from the state jurisdiction has left a residual state cost at a low enough level to facilitate local rates being maintained at reasonable levels.

The Commission's recent actions [*The changes in the separations rules for non rural carriers to shift the supported cost back to the state jurisdiction (Part 36.601(c)), and then apply the revenues that are received from the new support mechanism to further reduce access charges to the IXCs.*] seem to indicate that the 25% percent of universal service support that is provided by the federal mechanisms is irrelevant if all of the supported costs are shifted to the state jurisdiction and the support revenue is given to the IXC's through reduced access rates. This approach, if applied to small rural companies, would result in local rates being exorbitant.

The Commission's interim rules for small companies continues the support to local subscribers by way of shifting the support cost out of the state jurisdiction to the interstate jurisdiction. We believe this methodology should be continued so that the local subscribers will receive the benefits of universal service that we believe were intended by Congress. We believe the Federal fund should be sufficient to support all costs that cannot be reasonably recovered from intrastate rates and interstate access. As GVNW has consistently pointed out in our comments in this Docket and in the CC Docket No. 80-286 proceeding, small companies serving rural areas assign a significantly higher percentage of their costs to interstate than the 25% used as the basis for the Commission's decision to adopt the prescribed funding level for the non-rural carriers. We ask the Commission to carefully consider the needs of the rural subscribers and their carriers before adopting a 25% funding level. We also recommend that the support requirement be assigned to interstate so that the reduced cost on the state side will provide the support that was intended.

The following is an excerpt from our December 10, 1997, comments in CC Docket No. 80-286 which illustrates the massive shift to intrastate for some of the rural carriers if the Commission were to adopt the approach of shifting the existing support requirement to state while using the new support funds to further reduce access costs:

High Cost Support

In paragraph 98 of the NPRM, the Commission referred to its Access Charge Reform Order which directed that federal support received by ILECs should be used to satisfy the interstate revenue requirements that are otherwise collected through interstate access charges. Under the current jurisdictional separations rules and access cost assignment rules for rural companies, this directive appears appropriate. Under current rules all three of the support mechanisms provided to small rural companies (i.e. the DEM weighting program, the Universal Service Fund Expense Adjustment, and the Long Term Support programs) are all accomplished through an assignment of the cost to the interstate jurisdiction and then to the appropriate access element. We agree that the support that will be received from the new Universal Service Fund should be used to offset the amounts that would otherwise be recovered through the interstate rates associated with the above assignment of costs to the interstate access elements.

We are concerned, however, that a shift of the supported cost to the state jurisdiction will cause serious and unacceptable results. This approach of shifting the supported cost back to the state jurisdiction has already been adopted by the Commission for the non-rural carriers as it pertains to the Universal Service Fund Expense adjustment starting in 1999 (See Part 36.601(c)). Further cause for concern is the requests for comment in this NPRM regarding dropping the 25% loop cost allocation to interstate (Paragraph 92). We ask the Joint Board to resist any attempts to shift the supported costs that are currently assigned to interstate to the state jurisdiction. The shift of costs to the state jurisdiction would put an unreasonable burden on the customer base of these small rural companies. Below we have included a priceout which illustrates the per month shift in cost to the state jurisdiction that would occur if the interstate costs associated with the three mechanisms (Switch support, LTS, and High Cost Loop support) were shifted to the state. (A more detailed analysis of the data supporting the numbers below are included in Exhibit E to these Comments.) As can be seen in the table below, the impact on certain small LECs customers could be extreme.

Costs That Will Shift to State if the Support is Removed from the Separations Process

	NECA Code	Company Name	Total Interstate Support	Support Per Line Per Month Shifted to State
1	200529	Hardy Telephone Company	$1,429,529	$46.81
2	330937	Price County Telephone Co.	$480,590	$9.14
3	341003	Egyptian Telephone Cooperative	$681,491	$19.74
4	341026	Harrisonville Telephone Company	$2,023,261	$10.08
5	341032	Home Telephone Company	$794,978	$75.28
6	341045	Leaf River Telephone Company	$536,690	$81.02
7	341058	Montrose Mutual Telephone Company	$175,244	$9.71
8	341093	Yates City Telephone Company	$113,935	$17.05
9	341825	Shawnee Telephone Company	$524,055	$10.93
10	351105	Ayrshire Telephone Company	$109,084	$25.11
11	351888	Grand River (Ia)	$373,497	$5.39
12	381637	West River Telecommunications	$1,010,677	$4.71
13	421065	Citizens	$863,109	$18.40
14	421888	Grand River(Mo)	$5,513,537	$34.16
15	421901	Kingdom Telephone Co	$4,116,018	$77.44
16	442066	Dell Telephone Coop. (Tx)	$1,884,224	$250.83

Costs That Will Shift to State if the Support is Removed from the Separations Process

	NECA Code	Company Name	Total Interstate Support	Support Per Line Per Month Shifted to State
17	452226	Midvale Telephone Exch-Az	$334,800	$58.13
18	462187	El Paso County Telephone Company	$218,703	$6.07
19	462188	Farmers Telephone Company	$413,001	$90.10
20	462196	Peetz Cooperative Telephone Co.	$208,371	$85.54
21	472213	Albion Telephone Company	$974,832	$80.59
22	472215	Cambridge Telephone Company	$604,024	$50.95
23	472226	Midvale Telephone Exch (Id)	$626,027	$110.29
24	472232	Rockland Telephone Company	$474,103	$31.43
25	472233	Rural Telephone Co	$413,013	$76.83
26	482235	Blackfoot Telephone Cooperative	$1,903,985	$22.94
27	482242	Interbel	$1,631,609	$93.51
28	482244	Lincoln Telephone Company	$106,556	$9.10
29	482247	Nemont Telephone Coop.	$3,897,365	$24.22
30	482251	Range Telephone Coop	$2,005,939	$30.24
31	482254	Southern Montana	$671,595	$60.70
32	482257	Triangle Telephone Cooperative	$1,285,446	$11.07
33	483308	Clark Fork Telecommunications	$2,755,786	$31.95
34	483310	Central Montana Communications	$2,224,540	$24.76
35	492066	Dell Telephone Coop. (Nm)	$880,443	$217.07
36	492259	Baca Valley Telephone	$640,155	$87.60
37	492265	Tularosa Basin Telephone	$717,693	$15.03
38	492272	Roosevelt County Telephone	$1,092,334	$43.14
39	502277	Central Utah Telephone Co	$300,593	$17.28
40	512251	Range Wyoming	$3,835,427	$22.03
41	512289	Chugwater Telephone Company	$125,986	$40.38
42	512291	Dubois Telephone Exchange	$1,247,241	$53.47
43	532226	Midvale Telephone Exch-Or	$187,659	$68.59
44	532359	Beaver Creek Telephone Company	$597,265	$11.80
45	532362	Canby Telephone Assn.	$625,143	$5.29
46	532363	Clear Creek Mutual Telephone Compan	$795,334	$18.44
47	532364	Colton Telephone Company	$447,518	$31.60
48	532369	Eagle Telephone System, Inc.	$370,243	$76.75
49	532371	Cascade Utilities	$705,090	$6.67
50	532376	Helix Telephone Company	$292,659	$87.41

Costs That Will Shift to State if the Support is Removed from the Separations Process

	NECA Code	Company Name	Total Interstate Support	Support Per Line Per Month Shifted to State
51	532378	Trans-Cascades	$198,931	$109.06
52	532383	Molalla Telephone Company	$1,128,642	$17.02
53	532384	Monitor Cooperative Telephone Compa	$328,559	$40.44
54	532387	Nehalem Telephone And Telegraph	$256,976	$7.60
55	532388	North-State Telephone Company	$114,248	$18.78
56	532389	Oregon Telephone Corporation	$323,702	$15.38
57	532390	Oregon-Idaho Utilities, Inc.	$1,677,323	$201.41
58	532392	Pine Telephone System, Inc.	$838,427	$95.19
59	532393	Pioneer Telephone Cooperative	$1,051,807	$6.42
60	532397	Scio Mutual Telephone Association	$448,524	$21.08
61	542339	Siskiyou Telephone	$2,896,752	$56.13
62	552233	Rural Telephone Company	$550,982	$63.16
63	552349	Churchill County	$2,317,332	$82.60
64	552351	Lincoln County Telephone	$327,436	$13.01
65	552356	Rio Virgin Telephone Co.	$191,292	$3.43
66	613001	Arctic Slope Telephone Cooperative	$1,731,006	$71.84
67	613003	Bristol Bay Telephone Cooperative I	$765,598	$34.26
68	613019	Otz Telephone Cooperative	$976,087	$28.26
69	613025	Yukon Telephone Company	$493,115	$79.33
		Total	$70,857,136	$24.02

GVNW is opposed to the removal of needed support from the jurisdictional separations process. Removing the support assignment from interstate would create a significant and unacceptable shift to the state jurisdiction. As the Commission determines which rule changes may be in the public interest, we recommend that a careful balancing of changes needed for competitive entry be weighed against the need to meet the universal service mandate found in the Act.

CONCLUSION

The Congress has established a workable framework for maintaining universal service for all citizens. The FCC has completed many important universal service tasks in a very short timeframe. We hope, as this important work continues, the Commission will indeed be able to meet Chairman Kennard's stated objective of working closely with small telcos in creating "*a competitive telecommunications marketplace that leaves no one behind and keeps all of America connected.*" We agree with the Chairman that small and rural LECs are "*vitally important*" to our national telecommunications future as they "*are building the infrastructure that will keep rural America connected.*" If this is to be realized, it will be important for the Congress and the FCC to recognize company specific data impacts that GVNW and others have placed on the record in this and other FCC proceedings. The negative impacts for certain rural customers are not reflected if policy makers examine only the industry average impact.

We continue to recommend a cautious approach to regulatory changes designed to encourage competition in high cost rural areas. Given the difficulties being experienced in introducing local competition in metropolitan areas where the economics should be most favorable to competition, rural competition seems even further away. Inappropriate regulatory decisions designed to establish a competitive market in rural areas could result in harming the telecommunications system that presently is in place in rural America. The impacts on rural citizens and the companies presently providing telecommunications services should be carefully examined prior to implementing major regulatory changes.

Respectfully submitted,

GVNW Inc./Management

By: ______________________

for Kenneth T. Burchett

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February 6, 1998